

Subject 704

Penalty for Underpayment of Estimated Tax

The State of Arkansas Tax system is based on a pay as you go system. You must pay tax as you earn or receive your income during the year. There are two ways to pay as you go - withholding tax and estimated.

If you do not pay enough tax through withholding or estimated tax payments, you may have to pay a penalty for underpayment of estimated tax. If you owe at least \$1,000 of tax when you file your tax return and the amount of tax you owe is more than 10% of the tax shown on your return, you may have to pay a penalty for underpayment of estimated tax.

There are certain instances when no underpayment penalty will be assessed. You will not have to pay a penalty for underpayment of estimated tax if you had no tax liability for the year, you were a resident for all of the year, and you filed, or would have been able to file a tax return for a tax year of 12 full months. The penalty may be waived if:

- 1) Taxpayers whose income from farming for the income year can reasonably be expected to amount to at least two thirds of the total gross income from all sources for the income year, may file such declaration and pay the estimated tax on or before the fifteenth day of the second month after the close of the income year, or in lieu of filing any declaration, may file an income tax return and pay the tax on or before the fifteenth day of the third month after the close of the income year.
- 2) The penalty herein provided shall not be applicable where the original amount of estimated tax is the same amount shown to be due by the return of the taxpayer for the preceding income year where such return showing a liability for tax was filed by the taxpayer for the preceding income year of twelve months.
- 3) In lieu of filing the fourth quarter installment the taxpayer may file an income tax return and pay the tax on or before January 31st or on the last day of the first month after the close of the income year.
- 4) No penalty shall be imposed for a tax year if:
 - (a) the preceding tax year was a tax year of 12 months,
 - (b) the taxpayer did not have a tax liability for the preceding tax year, and
 - (c) the taxpayer was a resident of Arkansas throughout the preceding tax year.

- 5) No penalty shall be imposed with respect to any underpayment to the extent that the Commissioner of Revenues determines that by reasons of casualty, disaster, or other unusual circumstances the imposition of such penalty would be against equity and good conscience.
- 6) No penalty shall be imposed with respect to any underestimate or underpayment if the Commissioner determines that:
 - (a) The taxpayer retired after having attained age 62, or became disabled in the tax year for which such estimated payments were required to be made or in the tax year preceding such tax year, and
 - (b) Such underpayment was due to reasonable cause and not to willful neglect.

You should complete Form AR2210, Underpayment of Estimated Tax by individuals to see if you must pay a penalty. Form AR2210 is divided into three parts.

Part I is used to see if you have an underpayment subject to the penalty.

Use part 2 or 3 to figure the amount of the penalty. Form AR2210 divides the tax year into four payment periods. The penalty is figured separately for each period so it is possible that you could eliminate the penalty for some periods and not for others. In this situation, completing Form AR2210 would at least reduce the total penalty.